

Program Summary
Department of Commerce
Rural Economic Development

Program Overview

The Arizona Department of Commerce administers several programs that assist rural communities in their economic development efforts. Programs generally fall into 2 categories: targeted programs specifically directed to rural communities and programs geared to the state as a whole that benefit rural communities indirectly. The targeted programs include REDI Matching Grants, Main Street, Economic Development Matching Funds (CEDC) (which is composed of both the Growing Smarter Planning Grant Program and the Rural Matching Grants Program), and Rural Economic Development Special Line Items.

Targeted Programs

- The REDI program provides direct assistance to rural communities to organize an economic development program or effort and evaluate community resources. In FY 2005, \$45,000 from the CEDC Fund was awarded in grants. This amount was leveraged by an additional \$432,000 in monies from the local communities. Grants for projects that focus on capital investment or job growth have a better chance of approval than those that do not. There were 4 grant recipients in FY 2005: The Greater Flagstaff Economic Development Committee, Lake Havasu Partnership for Economic Development, White Mountain Regional Development, and Prescott Valley.
- The Main Street Program advances economic development within the context of historic preservation by working as a partner with local and state agencies, property owners and business people to revitalize downtown areas. Currently, there are 18 communities that participate in the program throughout rural Arizona. In FY 2005, \$58,100 from the CEDC Fund was awarded in grants, leveraged by an additional \$45,600 in monies from the local communities. There were 8 grant recipients in FY 2005: Showlow, Pinetop-Lakeside, Williams, Prescott, Globe, Safford, Apache Junction, and Cottonwood.
- The Rural Matching Grants Program awards 50/50 matching grants to cities and towns (mostly small/rural), tribal communities, and counties to establish foundations in local infrastructure, planning, natural resource management, all with the purpose of enhancing vital economies. In FY 2005, approximately \$44,000 from the CEDC Fund was awarded in grants. There were 4 grant recipients in FY 2005: Florence, Casa Grande,

Globe-Miami Regional Chamber of Commerce, and Wickenburg.

- The Growing Smarter Planning Grant Program awards matching grants (6 individual \$10,000 grants) to assist rural communities and counties in their efforts to adopt and implement their general/comprehensive plans. All Growing Smarter plans have already been adopted by municipalities and Commerce's role is supervisory in awarding monies for existing plans. Activities that can be funded include putting together a public participation program, doing research and analysis, preparing maps and graphics, updating zoning ordinances, and capital improvement plans. In FY 2005, \$60,000 from the CEDC Fund was awarded in grants. There were 6 grant recipients in FY 2005: Maricopa, Florence, Holbrook, Chino Valley, Pinetop-Lakeside, and Paradise Valley.
- The Rural Economic Development Program helps rural Arizona communities in accessing financing mechanisms and technical assistance to better address community infrastructure needs. In FY 2005, \$295,400 was appropriated from the General Fund for the operation of the program, as well as 4 rural representatives. These rural representatives meet with community councils, local businesses, civic organizations and trade associations to discover the needs of the area and how Commerce can assist them. Rural Economic Development representatives also develop short and long-term policies and objectives, help to create stronger partnerships, assist with conflict resolution, and any other issues which may enhance economic development sustainability.

Statewide Programs Benefiting Rural Communities

As mentioned above, Commerce also administers programs and performs functions that while not expressly targeted towards rural communities still benefit their economic development efforts. Examples include:

- The Job Training Program helps address the lack of job-specific skills and low per capita income levels by partnering with the private sector to provide funding for customized job training (funded by the Job Training Fund, a non-appropriated fund which receives its revenue from a 0.1% tax paid by employers on the first \$7,000 of an employee's wages), which is statutorily required to award a minimum of 25% of its monies to businesses in

rural areas. In FY 2005, approximately \$2.3 million was awarded to businesses in rural areas.

- The Greater Arizona Development Authority (GADA) provides low-cost financing for infrastructure projects to communities and special districts throughout the state. GADA's credit strength and payment for many of the costs associated with the bond sale process allows local governments to borrow at interest rates well below those at which they could merit on their own. GADA has issued \$64.1 million of Series 2005B bonds for projects in FY 2006. The bonds will be used to fund 5 loans to 4 communities and 1 fire district. The largest loan was to Lake Havasu for \$58 million to construct a new wastewater system.
- The Business Development and Attraction Program which assisted the location or expansion of 8 companies (out of a total of 38) to rural areas in the state in FY 2004. Commerce markets Arizona worldwide to attract new, high wage jobs, and serves as a resource for growing existing companies.

Auditor General Report Findings

The Auditor General's September 2003 Performance Audit of the Department of Commerce identified 2 options for rural development programs: eliminating them entirely or retaining them. The report indicated that grants and technical support for rural communities are available from other sources such as the State Historic Preservation Office (SHPO) and private fund-raising efforts. However, the Auditor General did acknowledge that the communities that rural development assists view the function as valuable and without Commerce's rural development programs, these communities might not be able to carry out some projects, while other projects would take longer due to the need to locate other sources of funding.

Commerce did not agree with the Auditor General's recommendation to eliminate Rural Economic Development programs for 3 reasons: The SPHO focuses on preservation planning, but provides no assistance regarding commercial district development or business retention; Commerce encourages private sector contribution by requiring matching funds to public financial assistance; and the Auditor General does not address the fact that no other entity is positioned to provide assistance delivered by the department's REDI program.

Program Funding

Rural Economic Development Programs specifically targeting rural areas receive funding from 2 sources: the State General Fund and the Commerce and

Economic Development Commission Fund. In FY 2006, the programs are funded at a total of \$583,000. The FY 2006 funding level represents an increase of 51.3% from FY 2001 levels. The 51.3% increase is primarily due to \$295,400 added in FY 2005 for funding for 4 rural economic development regional representatives. *Table 1* displays historical funding information for Rural Economic Development by fund source, using data from FY 2001, FY 2005, and FY 2006.

Table 1
Rural Economic Development Program
Funding History

<u>Fund</u>	<u>FY 2001</u>	<u>FY 2005</u>	<u>FY 2006</u>
GF	\$106,200	\$295,400	\$304,000
CEDC	<u>279,000</u>	<u>279,000</u>	<u>279,000</u>
Total	\$385,200	\$574,400	\$583,000

As mentioned previously, there are also monies expended on programs assisting rural communities that are not targeted specifically for that purpose. These programs include Job Training, GADA, Business Attraction and Development, as well as others. Because these programs are not solely focused on rural communities, Commerce is unable to determine how much funding assists rural communities specifically. Therefore, we have not included funding information for these programs.

Performance Measures

Table 2 includes the measures the Department of Commerce uses to assess the performance of the state's Rural Economic Development Program. There were 11 companies recruited to rural locations and there were 18 REDI communities implementing local/regional strategic plans in FY 2004. None of these measures are included in the General Appropriation Act. All of these measures assess process related issues such as the number of companies recruited to rural locations. These measures do not necessarily measure the effectiveness of the programs, but rather serve as an indicator of the level of funding they receive.

Commerce should consider several new performance measures to determine if economic development in our state's rural communities is effective: personal income per capita, median wage/salary/earnings data, job growth rate and investment data. The measures would depend on the availability of data, as some of these measures might not be collected in our rural communities. All of these measures could be used to test the effectiveness of the Rural Economic Development Program when compared to historic data from the same communities prior to the program's existence. However, it should be noted

that assessing the effectiveness of economic development is difficult because it is often dependent on outside factors.

Table 2		
Rural Economic Development Program Performance Measures		
<u>Performance Measure</u>	<u>FY 2004 Actual</u>	<u>FY2006 Estimate</u>
Number of companies recruited to rural locations	11	16
Number of REDI (rural) communities currently implementing local/regional strategic plans	18	20